COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES AND CHARGES OF HIGHLAND TELEPHONE COOP. CORP., INC., TO BE EFFECTIVE SEPTEMBER 1, 1984 AND APPLICATION OF HIGHLAND TELEPHONE, INC., FOR ORDER PERMITTING ADJUSTMENT OF RATES	CASE NO. 8997

O R D E R

On April 13, 1984, Highland Telephone Cooperative Corporation, Inc., ("Highland") filed its application for and notice of a proposed adjustment in rates of $160,055. In order to determine the reasonableness of the proposed increase the Commission held a public hearing in its offices in Frankfort, Kentucky, on August 31, 1984. All parties of interest were notified with the Attorney General's Office being the sole intervenor. All additional information requested at this hearing has been filed. In this Order the Commission will allow Highland to increase its rates and charges by the proposed amount of $160,055.

BACKGROUND

Highland is a Tennessee Corporation duly authorized to do business in the Commonwealth of Kentucky ("Kentucky") and is engaged in providing exchange and toll telephone service within Kentucky. Highland provides service through two exchanges serving all or portions of one county in Kentucky and eight exchanges serving all or portions of two counties in Tennessee.

Highland separates its Kentucky and Tennessee operations on the basis of Kentucky-located access lines to total company access lines. This results in approximately 28.1 percent of Highland's total operating expenses and assets being allocated to Kentucky. Operating revenues are based on actual Kentucky generated revenue. Liabilities and capital are allocated on the basis of Kentucky allocated assets to total company assets. This methodology was proposed and accepted for use in Highland's previous rate case before this Commission and will be allowed in this instance in determining the Kentucky jurisdictional operations of Highland for rate-making purposes.

ANALYSIS AND DETERMINATION

TEST PERIOD

Highland proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period in this proceeding.

VALUATION METHODS

Net Investment

Highland proposed an intrastate net investment rate base at the end of the test period of $7,077,842.[1] The Commission has accepted Highland's net investment rate base with the following exceptions:

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1 Exhibit 14, page 2 of 2.

Accumulated Depreciation

The Commission has increased Highland's test period accumulated depreciation reserve of $1,448,378 by $47,428 to reflect the additional depreciation expense allowed herein.

Deregulated Plant

At the end of the test period Highland had a net investment in deregulated station apparatus of $19,969.[2] The Commission has reduced Highland's net investment rate base by this amount in order to reflect only the regulated investment dedicated to providing telecommunications service.

Based on the above adjustments the Commission finds that the appropriate intrastate net investment rate base is $7,010,445, calculated as follows:

Telephone Plant in Service	$5,434,813
Plant Under Construction	3,049,147
Material and Supplies	27,904
Prepaid Expense	14,356
Subtotal	$8,526,220
Less:	
Accumulated Depreciation Reserve	$1,495,806
Deregulated Station Apparatus - Net	19,969
Subtotal	$1,515,775
Net Investment Rate Base	$7,010,445

REVENUES AND EXPENSES

Highland had an intrastate test period net operating loss before fixed charges of $10,637.[3] Highland proposed several pro

2 Exhibit 10, page 2 of 39.

3 Ibid., page 6 of 39.

forma adjustments to its test period operations based on projected revenue growth of 7.1 percent and operating expense growth of 5 percent.[4] These projections increased local service revenue by $34,999, toll service revenue by $37,345, other revenue by $1,715, uncollectible revenue by $2,200, maintenance expense by $17,737, commercial expense by $3,869, general office salaries and expense by $3,361 and other operating expenses by $6,592. The net effect of these projections is an increase in net operating income before fixed charges of $40,300. The Commission has a long-standing policy of denying adjustments based solely on projections, as they are not known and measurable. Therefore, the Commission has not accepted these pro forma adjustments and has reduced Highland's pro forma operating income before fixed charges by $40,300.

The Commission has further adjusted Highland's pro forma operations as follows:

Normalized Revenues

Highland had intrastate test period local service revenues of $492,939. Based on the rates in effect and the customers being served at the end of the test period the Commission has increased Highland's actual intrastate local service revenue by $71,260 to $564,199.

Employee Concessions

During the test period Highland granted employee concessions in the form of reduced local service charges of $8,478.

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4 Response to Commission Order of July 9, 1984, Item 1, pages 4 and 6 of 8.

The Kentucky portion of this concession is $1,822.[5] The Commission is of the opinion that the ratepayer should not be required to pay the cost of employee concession service as no tangible benefits accrue to the ratepayers. Therefore the Commission has increased Highland's net operating income by $1,822.

Uncollectible Revenue

Based on the adjusted operating revenues determined herein and Highland's proposed percentage of uncollectible revenue of 2.971 percent,[6] the Commission has increased Highland's test period uncollectible revenue of $30,995 by $2,117 to $33,112.

Maintenance Expense

During the test period Highland incurred station equipment repairs of $35,469 in closing-out costs of an engineering contract and expended $21,147 on changes to its air conditioning system necessitated by building construction, $13,122 for painting and improvements to the existing headquarters building, and $16,243 for roof repairs.[7] The Commission is of the opinion that the closing-out cost of the engineering contract is a non-recurring expense and has reduced maintenance expense by this amount. The Commission is further of the opinion that the repairs

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5 Exhibit 26, page 2 of 2.

6 Response to Commission Order of July 9, 1984, Item 1, page 4 of 8.

7 Transcript of Evidence ("T.E."), pages 13 and 14.

and improvements stated above will have a useful life extending beyond the test period. Therefore, the Commission has amortized these expenditures over a 5-year period. These adjustments reduce maintenance expense by $75,879. The Kentucky portion of this reduction is $21,322.

Legal Expense

During the test period Highland experienced legal expenses of $2,411 for its defense in a lawsuit brought against Highland, $1,021 applicable to the termination of Highland's previous pension plan and $75 for filings in an administrative case previously before this Commission.[8] The Commission is of the opinion that these expenses are unusual in nature and are non-recurring. Therefore, the Commission has reduced Highland's legal expenses by $3,507. The Kentucky portion of this adjustment is $1,039.

Rate Case Expense

Highland's operating expenses included $2,425[9] applicable to this rate case filing. The Commission is of the opinion that this expense should be amortized over a 3-year period. Therefore the Commission has reduced Highland's Kentucky operating expenses by $1,617.

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8 T.E., page 17; response to Commission Order of July 9, 1984, Item 6.

9 Ibid.

Lobbying Expense

Highland incurred expenses of $3,164[10] for a meeting with appropriate congressmen to discuss the effects of their actions on the telephone business. The Commission is of the opinion that this constitutes lobbying and as such it is the Commission's policy that the associated expenses are not eligible for inclusion for rate-making purposes. Therefore, the Commission has reduced Highland's operating expenses by this amount. The Kentucky portion of this adjustment is $889.

Travel Expense

Highland incurred test period expenses of $3,635[11] in paying for the spouses of Highland employees to attend out-of-state telephone seminars. The Commission is of the opinion that Highland's ratepayers should not be required to pay for this expense. Therefore, the Commission has reduced Highland's operating expense by this amount. The Kentucky portion of this adjustment is $1,239.

Station Connection Expensing

During the test period Highland expensed $91,142 for the phase-in of expensing inside station connections for the period October 1981 through December 1983. Of this amount, $25,611[12] was applicable to Kentucky operations. This adjustment was made to

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10 T.E., page 32; response to A.G.'s information request.

11 Response to hearing request, filed September 14, 1984, Item 1, pages 1 and 2 of 2.

12 Ibid., Item 4, page 1 of 1.

correct failure to phase in this expense in the appropriate periods and will not be recurring at this level. The yearly impact of full expensing of inside station connections which the Commission finds to be the appropriate measure of this expense will be $65,251. Of this amount, $18,336 will be applicable to Kentucky operations. Therefore, the Commission has reduced Highland's operating expenses by $7,275.

Wages and Salaries

Highland had test period wages applicable to Kentucky of $286,308.[13] Highland's contract with its employees requires a 2 percent wage increase and a cost of living adjustment to be given in January of each year. Highland did not include a pro forma adjustment to its operations for the January 1984 increase. The Commission is of the opinion that this is a proper adjustment to make since it is so near the end of the test period and is known and measurable. At the end of the test period the annual inflation rate, as measured by the consumer price index, was 3.25 percent. This inflation rate combined with the 2 percent increase results in a total wage increase of 5.25 percent. In the past the Commission has allowed only a 5 percent wage increase for this time period. Therefore, the Commission will increase Highland's wage and salary expense by 5 percent. This results in an increase in Highland's Kentucky operating expenses of $14,315.

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[13] Exhibit 25.

Depreciation Expense

Highland had test period depreciation expense of $1,150,155. During September, 1984, Highland placed $3,444,534[14] of plant under construction in service. In order to recognize this increase in depreciable plant, the Commission has increased Highland's depreciation expense, using the average depreciation rate of 4.9 percent, by $168,782 to reflect a full year's depreciation on this additional plant in service. The Kentucky portion of the increase is $47,428.

Therefore, the Commission is of the opinion that Highland's adjusted operations can be stated as follows:

	Actual	Adjustments	Adjusted
Operating Revenues	$1,012,081	$ 69,148	$1,081,229
Operating Expenses	1,043,484	28,362	1,071,846
Operating Income/(Loss)	$ <31,403>	40,786	9,383
Other Income	20,766		20,766
Net Income Available for Interest Charges	$ <10,637>	$ 40,786	$ 30,149

REVENUE REQUIREMENTS

Highland's Kentucky operation has an average interest expense on long term debt of $255,939. Highland's adjusted operations provide a times interest earned ratio ("TIER") of .12X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable in that it does not generate sufficient revenues to meet Highland's operating expenses and provide for reasonable debt coverage. Therefore, the Commission will allow

14 T.E., pages 49-50.

Highland to increase its rates and charges by the proposed $160,055. This increase will provide Highland with an adjusted TIER of .74X which will more closely provide reasonable operating expenses and debt service coverage.

RATE DESIGN

Highland proposed to unbundle its service connection charges, whereby the customers would be charged only for the work done, and to offer the customer the opportunity to perform some of the labor involved in installation of services.

Highland proposed an increase in coin telephone service from 10 cents per call to 25 cents per call to maintain state uniformity on coin telephone charges.

Highland proposed to change its foreign exchange service to concur with the South Central Bell Telephone Company ("Bell") tariff. The existing foreign exchange customers are now paying Bell's rates; therefore, the only increase will be when connecting companies increase their local network access charges. The major increase is in the approved installation fee used by Bell. The installation fee will discourage frequent use of foreign exchange which in effect reduces toll revenue used to support local service.

Highland also proposed rates and tariff changes for key and pushbutton telephone service, private branch exchange, directory assistance charges, off premises visits, auxiliary equipment, directory listings, and obsolete service offerings. The Commission has reviewed the above changes proposed by Highland and is of the opinion that they are fair, just and reasonable and should be approved.

FINDINGS AND ORDERS

The Commission, after examining the evidence of record and being advised, is of the opinion and finds that:

1. The rates and charges proposed by Highland should be approved.

2. The Commission has reviewed all proposed tariff changes, as set out in the rate design section of this Order, and finds that the proposed changes should be approved.

3. Highland should file its revised tariff sheets setting out the rates and charges allowed herein.

IT IS THEREFORE ORDERED that the rates and charges proposed by Highland and in Appendix A are the fair, just and reasonable rates to be charged by Highland on and after the date of this Order.

IT IS FURTHER ORDERED that the proposed changes in Highland's tariff, as set out in the rate design section of this Order, be and they hereby are approved.

IT IS FURTHER ORDERED that Highland shall file with this Commission within 30 days of the date of this Order its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 20th day of November, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8997 DATED NOVEMBER 20, 1984

The following rates are prescribed for the customers in the area served by Highland Telephone Cooperative Corporation, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

GENERAL SUBSCRIBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

C.1.2 Monthly exchange service rates as authorized by the Kentucky Public Service Commission.

1. Monthly exchange rates for:
Pine Knot
Sterns-Whitley City

ONE-PARTY SERVICE RATE COMPONENTS	RESIDENCE	BUSINESS
Network Access Charge	$10.25	$16.50

SERVICE CONNECTION CHARGES

		NRC
D.4.2	Service Ordering	$ 6.25
D.4.3	Line Assignment	2.50
D.4.4	Material Handling	2.00
D.4.5	Line Connection (Central Office)	3.50
D.4.6	Line Connection (Premises)	7.25
D.4.7	Wiring Charges:	
	D.4.7.1 Per Termination (exposed)	5.50
	D.4.7.2 Per Termination (concealed)	16.50

		NRC
D.4.7.3	Pre-installed per Order Max. Four Outlets	25.00
	Each Additional outlet (same order)	4.50
D.4.8	Premises Visit	14.50
D.4.9	Equipment Work-each instrument	8.50
D.4.10	Restoral Charge	22.00
D.4.11	Maintenance of Service Charge	19.00
D.4.12	Bad Check Charge	5.00

DIRECTORY LISTINGS

		Monthly Rate
F.5.2	Additional Listings, per line of information requested by customer.	
	1. Regular additional listings, each	$ 1.25
F.5.3	Duplicate and Cross Reference	1.25
F.5.4	Alternate Call Number Listings, each	1.25
F.5.5	Foreign Exchange Listings, each	

The rate for a foreign Company listing will be the rate applicable in the directory where the listing appears.

F.5.6	Temporary Listings, each	1.25
F.5.7	Office Hour Listings, each	1.25
F.5.8	Dual Name Listings	
	1. Primary Service Listing, each	1.25
	2. Additional Listing, each	1.25
F.5.9	Unlisted Number, each	1.50
F.5.10	Non-Published Number, each	2.00
F.5.11	Indented Listings, each	1.25
F.5.12	Caption Listings, each	1.25

COIN TELEPHONE SERVICE

G.1.3 Message Charges

1.	Each local message	$ .25
2.	Toll messages are charged at the Telephone Company's established rates.	

G.2.2 Charges

1.	Each local message	.25
2.	Toll messages are charged for at the company's established rates.	

3. Subscribers to Semi-public Telephones are required to guarantee total monthly receipts from local exchange service of $20.00. When the monthly receipts from Local Service are less than the amount of the guarantee, the subscriber will be billed for the difference. Such bills are subject to the same terms and conditions and treated as bills rendered for other types Local Exchange Service.

FOREIGN EXCHANGE (FX) SERVICE

I.1 Concurrence

Highland Telephone Cooperative, Incorporated, hereinafter called the concurring utility, assents to, adopts and concurs in the Foreign Exchange Service and Foreign Central Office Service Tariff, filed with the Kentucky Public Service Commission by South Central Bell Telephone Company, hereinafter called the issuing utility, as such Tariff now exists or as it may be revised, added to or supplemented by superseding sheets or issues, for Foreign Exchange services furnished by the issuing utility and concurring utility, and hereby makes itself a party thereto and obligates itself to observe each and every provision thereof.

I.2 Exceptions

According to the issuing utility, the foreign termination determines the local service rate. If a foreign exchange terminates in the concurring utility's certificated area, the base rate will be the local service rate as described in Section C of this tariff. The base rate will apply to terminations within a one-mile radius of the Central Office building of the exchange in which the foreign exchange exists. For terminations beyond this one-mile radius, there will be an additional charge per 1/4 mile by aerial route as follows:

	Monthly Rate
Mileage Charge per 1/4 mile beyond Base Rate Area	$ 1.45

KEY AND PUSHBUTTON TELEPHONE SERVICE

J.2 Moves and Changes

J.2.1 Any rearrangement of station features that do not require changing or relocating the key system instrument will be charged at rates applicable in Section D of the tariff.

J.2.2 Any moves or rearrangements which involved changing or relocation of the key system instrument, but does not involve calling will be charged at rates applicable in Section D, except that move and change charges on this section will apply in place of equipment work charges impressed in Section D.

J.2.3 Any moves or rearrangements which involve changing or relocation of the key system instrument and do involve additions to or rearrangement of existing cabling will be charged as though it were a new station.

J.3 Systems and Charges

J.3.1 Type 501 or Equivalent:

These systems provide for a maximum of six trunks with winking hold, holding key and pick-up keys, visual busy signals by illuminated pick-up keys.

Option: Intercommunicating line with full selective audible signaling between stations by use of the dial in the telephone.

Rates:		Monthly Rate	Installation Charge
J.3.1.1	Each Trunk at 1 1/2 times the one-party business rate......	Sec. "C"	$ 6.50
J.3.1.2	Tel-Touch calling service each trunk..................	Sec. "M"	See "M"
J.3.1.3	Common Equipment 1. Up to six trunks..........	$ 23.00	20.00

		Monthly Rate	Installation Charge
J.3.1.4	Each Telephone:		
J.3.1.4.1 1800 Type	Six Button Instrument with Rotary Dial.......	$ 5.00	15.00
J.3.1.4.2 1800 Type	Six Button Six-Button Instrument with Pushbutton Dial...	$ 6.00	15.00
J.3.1.5	Intercommunicating Line System For:		
J.3.1.5.1	Rotary Dial System............	$ 7.00	10.00
J.3.1.5.2	Pushbutton Dial System............	$11.50	10.00

PRIVATE BRANCH EXCHANGE SERVICE

K.3 PBX Trunk Rate

	Monthly Rate
1. Line provided as PBX trunks will be charged at 1 1/2 times the one-party business rate	Sec. "C"

K.5 Charges

1. Charge for key trunks that employ PBX extension line is 1/2 the business one-party rate. Sec. "C"

MISCELLANEOUS SERVICE

M.1 Directory Assistance

M.1.1 General
The Telephone Company furnished Directory Assistance Service whereby customers may request assistance in determining telephone numbers.

M.1.2 Rates
Calls to Directory Assistance, each...........$ .20

M.2.2 Rates

1. Off Premises Extension

Mileage $1.50 per 1/4 mile

AUXILIARY EQUIPMENT

		Monthly Rate
Mc.2.3	The following charges are for a rotary dial instrument. Instruments with pushbutton dial will have other charges applied in this section of the tariff.	
	Trendline	$ 2.25
Mc.5	Weatherproof and Explosive Atmosphere Telephones	
Mc.5.1	Weatherproof instruments consist of a metal enclosed Telephone set for outdoor or explosive atmosphere use and are funished with all classes of service except Public and Semi-Public service.	10.00
Mc.6	Impaired Hearing Equipment	
Mc.6.1	Attachment to telephone for hard of hearing equipped with a volume control to raise the incoming voice level.	2.25
Mc.6.3	The above charges are in addition to the regular monthly rate for the instruments they are attached to.	
Mc.8	Signaling Equipment	
Mc.8.1	Bells, Gongs, Chimes and Horns	

Mc.8.1.1 Use and Conditions

Bells, gongs, electronic ringers, and other special or industrial signals are offered for the purpose of providing supplemental or audible signaling equipment in special or noisy location or at points apart from the location of the telephone. Extension bells, gongs, horns and electronic ringers may not be located more than 250 feet from the nearest telephone with which they are directly connected. Special signal devices and bells, gongs and horns shall not be located in areas where they will interfere or disturb other persons in the area.

	Monthly Rate
Mc.8.1.2	
A. Bell - ordinary type each........................	$ 1.00
B. Bell - loud ringing type each....................	1.25
C. Horns with relay (Commercial Pwr.) each..........	4.75
D. Chimes each......................................	1.25

OBSOLETE SERVICE OFFERINGS

Z.1 General

Z.1.1 The items of equipment or services itemized in this section of the Tariff will no longer be offered on a lease based by the Company.

Z.1.2 These items will remain in service for the remainder of their service life, or removed at the customer's request.

Z.1.3 Items in this section of the Tariff are subject to rate increases as warranted by increasing cost of maintenance, servicing, or replacement part costs.

	Monthly Rate
Z.2 Equipment and Charges	
Z.2.1 Three-Line Rotary	$ 3.00
Z.2.2 Three-Line Common Equipment	7.50
Z.2.3 Three-Line System Intercom Rotary	7.00